



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

The Honorable Albert Gore, Jr.  
Vice President of the United States  
and President of the Senate  
Washington, D.C. 20510

The Honorable J. Dennis Hastert  
Speaker of the House of  
Representatives  
Washington, D.C. 20515

Gentlemen:

I am pleased to send you the Annual Report of the Securities and Exchange Commission (SEC or Commission) for fiscal year 1999. The activities and accomplishments identified in the Annual Report continue the Commission's long tradition of effective enforcement in and regulation of our nation's capital markets. I have highlighted some of the Commission's achievements below.

*Enhancing Investor Protections*

The Commission remains vigilant in pursuing its law enforcement responsibilities. This past year, the Commission sanctioned a clearing firm \$5 million for facilitating widespread fraudulent activity at a broker-dealer. The Commission determined the clearing firm sought to avoid losses by charging unauthorized trades to the broker-dealer's customers, repeatedly requesting and obtaining credit extensions without any inquiry sufficient to establish good faith, liquidating property in customer accounts to pay for unauthorized trades, refusing to return customer property that had been liquidated to pay for unauthorized trades, and disregarding customer instructions. These actions forestalled the collapse of the broker-dealer and allowed it to continue to hide its continuing capital deficiency. The Commission's action makes it clear that a clearing firm, or any market participant, that engages in conduct enabling fraudulent activity is fully responsible for its actions.

We also kept up our focus of coordinating examinations with foreign, federal, and state regulators and self-regulatory organizations to enhance cooperation. During the year, Commission staff conducted examinations with the Hong Kong Securities and Futures Commission, the United Kingdom's Financial Services Authority acting as the Investment Management Regulatory Organization, and the Ontario Securities Commission.

The Commission adopted amendments to the rule that governs personal trading by mutual fund portfolio managers and other employees. The amendments tighten the rule by requiring greater board oversight of personal trading practices, more complete reporting of securities trading by employees, and pre-clearance of employee purchases of securities sold in initial public offerings and private placement transactions. These amendments will help ensure that the personal trading of mutual fund insiders does not compromise the interest of mutual fund shareholders.

The Commission continued its strong emphasis on investor education through town meetings, seminars, brochures, and the Internet. We launched a new investor education page on our website at [www.sec.gov/invkhhome.htm](http://www.sec.gov/invkhhome.htm). The new page features interactive quizzes and calculators, information about online investing, and a special section for students and teachers.

The Commission also brought and settled charges against a major accounting firm for engaging in improper professional conduct by violating auditor independence rules. The firm agreed to be censured and to establish a \$2.5 million auditor independence education fund.

### *Disclosure Developments*

The Commission adopted comprehensive revisions to the rules and regulations applicable to takeover transactions (including tender offers, mergers, acquisitions and similar extraordinary transactions). The revised rules permit increased communications with security holders and the markets. The amendments also:

balance the treatment of cash and stock tender offers; simplify and centralize the disclosure requirements; and eliminate regulatory inconsistencies in mergers and tender offers. In addition, we updated the tender offer rules. We believe these revisions are leading to a more well-informed and efficient market.

We also adopted rule changes that will reduce the barriers foreign companies face when raising capital or listing their securities in more than one country. The new provisions bring SEC disclosure requirements for foreign companies closer to the international standards endorsed late last year by the International Organization of Securities Commissions, the global association of securities regulators.

During the year, most mutual funds revised their prospectuses to comply with amendments to the Commission's mutual fund registration form, and the plain English initiative adopted by the Commission in 1998. The revisions are intended to help investors make more informed investment decisions and minimize prospectus disclosure common to all funds. At the same time, we proposed rule amendments that would require funds to provide enhanced disclosure relating to their directors.

### *Technology*

We continued to focus on automation and the many technological challenges facing the industry. This past year, our Compliance Inspections and Examination staff conducted numerous reviews of registrants' programs for dealing with the Year 2000 computer problem. These included both for cause reviews in which the staff followed-up on red flags suggesting the firm needed to enhance its preventative efforts, and general oversight reviews. The staff, in collaboration with the National Association of Securities Dealers and New York Stock Exchange, reviewed developments at the 38 largest broker-dealers.

In late 1998, we adopted a new regulatory framework for alternative trading systems (ATs). The new framework allows ATs to choose to register as exchanges or broker-dealers. Additional

requirements of the rule are specifically designed to address their unique role in the market. It also better integrates alternative trading systems into the regulatory framework for markets, and is flexible enough to accommodate the business objectives of, and the benefits provided by, alternative trading systems. Most of the rule amendments and new rules became effective on April 21, 1999, and the remainder became effective on August 30, 1999.

In addition, we modernized the uniform broker-dealer registration form to support electronic filing in the new, Internet-based Central Registration Depository system. This computer system, which is operated by the National Association of Securities Dealers, Inc., maintains registration information regarding broker-dealers and their registered personnel.

### *International Listings*

We continued our efforts to widen the range of choices available to U.S. investors by promoting the internationalization of our markets. In 1990, 434 foreign companies were reporting in the U.S.; today, there are over 1,200 foreign companies from 57 countries. Public offerings filed by foreign countries in 1999 totaled over \$244 billion—a new record for an amount registered in a single year. We will continue to do all we can to encourage more companies to list here to afford U.S. investors the protections of U.S. securities laws.

### *Accounting*

An area of continued concern to the Commission is inappropriate earnings management. Abusive earnings management involves the use of various forms of gimmickry to distort a company's true financial performance in order to achieve a desired result. Staff Accounting Bulletin 99 reemphasizes that the exclusive reliance on any percentage or numerical threshold in assessing materiality for financial reporting has no basis in the accounting literature or in the law. The staff also issued two other bulletins to provide guidance on the criteria necessary to recognize restructuring liabilities and asset impairments and the conditions prerequisite to recognizing revenue.

## Glass-Steagall Reform

This past year, we played a significant role in negotiations leading to the enactment of the landmark Gramm-Leach-Bliley Act. The law allows securities firms, banks, and insurance companies to affiliate with one another, and requires increased coordination of activities among all the financial regulators. Even more so than in the past, Commission staff will work side-by-side with their counterparts from the banking regulatory agencies, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

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Change has always been the hallmark of our markets. In recent years, the pace of change has accelerated dramatically. To be effective, the SEC must identify changes in the market and tailor regulatory activities to accomplish the dual goals of promoting capital formation and protecting investors. Towards this end, I have every confidence that the Commission will continue to perform its responsibilities with professionalism and dedication.

Sincerely,

Arthur Levitt  
Chairman

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# Commission Members and Principal Staff Officers

(As of November 5, 1999)

Commissioners	Term Expires
<b>Arthur Levitt</b> , <i>Chairman</i>	2003
<b>Norman S. Johnson</b> , <i>Commissioner</i>	1999
<b>Isaac C. Hunt, Jr.</b> , <i>Commissioner</i>	2000
<b>Paul R. Carey</b> , <i>Commissioner</i>	2002
<b>Laura S. Unger</b> , <i>Commissioner</i>	2001

## Principal Staff Officers

**Jennifer Scardino**, *Chief of Staff*

**Brian J. Lane**, *Director, Division of Corporation Finance\**

**Michael R. McAlevey**, *Deputy Director*

**Martin Dunn**, *Senior Associate Director*

**Vacant**, *Senior Associate Director*

**Robert A. Bayless**, *Associate Director*

**Mauri Osheroff**, *Associate Director*

**Shelly E. Parratt**, *Associate Director*

**David A. Sirignano**, *Associate Director*

**Vacant**, *Associate Director*

**Vacant**, *Associate Director*

**Richard Walker**, *Director, Division of Enforcement*

**Stephen Cutler**, *Deputy Director*

**William Baker**, *Associate Director*

**Paul V. Gerlach**, *Associate Director*

**Thomas C. Newkirk**, *Associate Director*

**Joan E. McKown**, *Chief Counsel*

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\*Brian Lane resigned from the Commission in 1999. David B.H. Martin was appointed Division Director on November 29, 1999.

**Christian J. Mixter**, *Chief Litigation Counsel*  
**Stephen J. Crimmins**, *Deputy Chief Litigation Counsel*  
**Walter P. Schuetze**, *Chief Accountant*  
**James A. Clarkson, III**, *Director of Regional Office Operations*

**Paul F. Roye**, *Director, Division of Investment Management*  
**Kenneth J. Berman**, *Associate Director*  
**Barry D. Miller**, *Associate Director*  
**Robert Plaze**, *Associate Director*  
**Douglas Scheidt**, *Associate Director*

**Annette Nazareth**, *Director, Division of Market Regulation*  
**Robert L.D. Colby**, *Deputy Director*  
**Larry E. Bergmann**, *Associate Director*  
**Belinda Blaine**, *Associate Director*  
**Michael A. Macchiaroli**, *Associate Director*  
**Catherine McGuire**, *Associate Director/Chief Counsel*

**Harvey Goldschmid**, *General Counsel, Office of General Counsel\*\**  
**David Becker**, *Deputy General Counsel*  
**Meyer Eisenberg**, *Deputy General Counsel*  
**Jacob H. Stillman**, *Solicitor*  
**Karen Burgess**, *Associate General Counsel*  
**Anne E. Chafer**, *Associate General Counsel*  
**Richard M. Humes**, *Associate General Counsel*  
**Diane Sanger**, *Associate General Counsel*

**Lori A. Richards**, *Director, Office of Compliance Inspections and Examinations*  
**Mary Ann Gadziala**, *Associate Director*  
**Gene Gohlke**, *Associate Director*  
**C. Gladwyn Goins**, *Associate Director*

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\*\*Harvey Goldschmid resigned from the Commission in 1999. David Becker was appointed General Counsel on December 7, 1999.

**Lynn E. Turner**, *Chief Accountant, Office of the Chief Accountant*

**Brenda Murray**, *Chief Administrative Law Judge, Office of the Administrative Law Judges*

**Vacant**, *Chief Economist, Office of Economic Analysis*

**Deborah Balducchi**, *Director, Office of Equal Employment Opportunity*

**James M. McConnell**, *Executive Director, Office of the Executive Director*

**Michael Bartell**, *Associate Executive Director*

**Margaret Carpenter**, *Associate Executive Director*

**Kenneth Fogash**, *Associate Executive Director*

**Jayne Seidman**, *Associate Executive Director*

**Marisa Lago**, *Director, Office of International Affairs*

**Vacant**, *Director, Office of Investor Education and Assistance\*\*\**

**Vacant**, *Director, Office of Legislative Affairs\*\*\*\**

**Paul S. Maco**, *Director, Office of Municipal Securities*

**Christopher Ullman**, *Director, Office of Public Affairs, Policy Evaluation and Research*

**Jonathan G. Katz**, *Secretary of the Commission*

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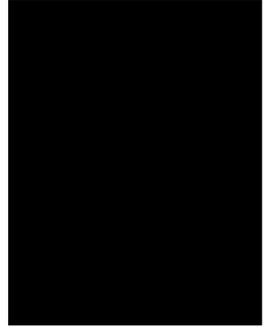
\*\*\*Nancy Smith resigned from the Commission in 1999. Susan Ferris Wyderko was appointed Director on March 7, 2000.

\*\*\*Susan Ochs resigned from the Commission in 1999. Tracey Aronson was appointed Director of the Office of Congressional and Intergovernmental Affairs on March 7, 2000.

# Biographies of Commission Members

## Chairman

Arthur Levitt is the 25th Chairman of the United States Securities and Exchange Commission. First appointed by President Clinton in July 1993, the President reappointed Chairman Levitt to a second five-year term in May 1998. On September 9, 1999, he became the longest serving Chairman of the Commission. His term expires on June 5, 2003.



As SEC Chairman, Arthur Levitt's top priority is investor protection, which is reflected by the key successes of his first term: reforming the debt markets; improving broker sales and pay practices; promoting the use of plain English in investment literature as well as in SEC communications with the public; preserving the independence of the private sector standard setting process; ensuring the independence of accountants; and encouraging foreign companies to list on U.S. markets.

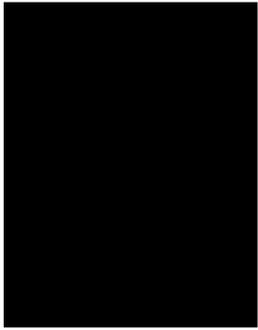
Chairman Levitt created the Office of Investor Education and Assistance and has held a series of investor town meetings to educate investors about how to safely and confidently participate in the securities markets. Under Chairman Levitt's leadership the Commission created a Web site ([www.sec.gov](http://www.sec.gov)), which allows the public free and easy access to corporate filings, and an 800 number (800-SEC-0330) that enables the public to report problems and request educational documents.

Chairman Levitt has also worked to sever ties between political campaign contributions and the municipal underwriting business, as well as improving the disclosure and transparency of the municipal bond market. Chairman Levitt has sought to raise the industry's sales practice standards and eliminate the conflicts of interest in how brokers are compensated. In partnership with the

securities industry, Chairman Levitt developed the “Fund Profile” and other plain English guidelines for investment products to make disclosure documents easier to understand while maintaining the value of the information provided to investors.

In his second term, Chairman Levitt has maintained his focus on investor protection by: combating securities fraud; fighting Internet fraud; analyzing market structure issues; maintaining auditor independence and quality accounting standards; harmonizing international accounting standards; and creating a regulatory framework that embraces new technology. Chairman Levitt has also made a priority of working with Congress and the Administration to see that SEC employees are compensated equitably with other financial regulatory agencies.

Before joining the Commission, Mr. Levitt owned Roll Call, a newspaper that covers Capitol Hill. From 1989 to 1993, he served as the Chairman of the New York City Economic Development Corporation, and from 1978 to 1989, he was the Chairman of the American Stock Exchange. Prior to joining the AMEX, Mr. Levitt worked for 16 years on Wall Street. He graduated Phi Beta Kappa from Williams College in 1952 before serving two years in the Air Force.



## **Commissioner**

Following his appointment by President Clinton, and his confirmation by the Senate, Norman S. Johnson was sworn in as a United States Commissioner on February 13, 1996, in a ceremony presided over by the Chief Federal District Judge in Salt Lake City, Utah.

Prior to his nomination, Commissioner Johnson was a senior partner in the firm Van Cott, Bagley, Cornwall & McCarthy and has had a long and illustrious legal career focusing on federal and state securities law. Commissioner Johnson commenced his career in the private practice after serving as a

staff member of the SEC from 1965 through 1967. In addition, Commissioner Johnson served as an Assistant Attorney General in the Office of the Utah Attorney General from 1959 to 1965 and also served as a law clerk to the Chief Justice of the Utah Supreme Court.

During his career, Commissioner Johnson has served as President of the Utah State Bar Association, was chosen as a State Delegate, House of Delegates, American Bar Association, and was named Chairman of The Governor's Advisory Board on Securities Matters, State of Utah. In addition, Commissioner Johnson served on the Governor's Task Force on Officer and Director Liability, State of Utah and numerous other committees and groups concerned with the application of federal and state securities laws.

Commissioner Johnson has received numerous honors and awards in recognition of the outstanding contributions he has made to the Securities Practice in the Rocky Mountain area. He has authored several articles published in legal periodicals, one of which is much cited, "The Dynamics of SEC Rule 2(e): A Crisis for the Bar."

Commissioner Johnson has involved himself in many community groups, including the Utah Supreme Court Committee on Gender and Justice. Married to Carol Johnson, Commissioner Johnson has three grown daughters, Kelly, Catherine and Lisa, all whom reside in Utah.



## **Commissioner**

Isaac C. Hunt, Jr. was nominated to the Securities and Exchange Commission by President Bill Clinton in August 1995 and confirmed by the Senate on January 26, 1996. He was sworn in as a Commissioner on February 29, 1996.

Prior to being nominated to the Commission, Mr. Hunt was Dean and Professor of Law at the University of Akron School of Law, a position he held from 1987 to 1995. He taught securities law for seven of the eight years he served as Dean. Previously, he was Dean of the Antioch School of Law in Washington, D.C. where he also taught securities law. In addition, Mr. Hunt served during the Carter and Reagan Administrations at the Department of the Army in the Office of the General Counsel as Principal Deputy General Counsel and as Acting General Counsel. As an associate at the law firm of Jones, Day, Reavis and Pogue, Mr. Hunt practiced in the fields of corporate and securities law, government procurement litigation, administrative law, and international trade. In addition, Mr. Hunt commenced his career at the SEC as a staff attorney from 1962 to 1967.

Mr. Hunt was born on August 1, 1937 in Danville, Virginia. He earned his B.A. from Fisk University in Nashville, Tennessee in 1957 and his LL.B. from the University of Virginia School of Law in 1962.

## **Commissioner**

Paul R. Carey was nominated to the Securities and Exchange Commission by President Bill Clinton and confirmed by the Senate on October 21, 1997 for a term which expires June 5, 2002.



Prior to being nominated to the Commission, Mr. Carey served as Special Assistant to the President for Legislative Affairs at the White House, where he had been since February of 1993. Mr. Carey was the liaison to the United States Senate for the President, handling banking, financial services, housing, securities, and other related issues. Prior to joining the Administration, Mr. Carey worked in the securities industry, focusing on equity investments for institutional clients.

Mr. Carey received his B.A. in Economics from Colgate University.

Mr. Carey was born in Brooklyn, New York on October 18, 1962.



## **Commissioner**

Laura S. Unger was sworn in on November 5, 1997 as the fifth member of the Securities and Exchange Commission, for a term expiring June 2001.

Soon after arriving at the Commission, Ms. Unger conducted a top-to-bottom review of the Commission's Enforcement Division. The review generated a series of recommendations that have significantly enhanced the Division's ability to carry out the Commission's agenda.

Ms. Unger played a key role in the Commission's efforts to deal with the Year 2000 problem. Ms. Unger worked to improve the disclosure of Year 2000 remediation efforts by both public reporting companies and Commission-regulated entities. Ms. Unger also increased awareness about the Year 2000 problem through congressional testimony and speeches to industry groups.

As Commissioner, Ms. Unger's primary focus is on the Commission's response to the impact of technological change on the securities industry. Ms. Unger is conducting an ongoing evaluation of whether the Commission's regulatory scheme enables market participants to optimize the benefits of technology, consistent with the Commission's obligation to protect investors. As part of this effort, in November 1999, Ms. Unger submitted a report outlining her findings and recommendations to the Commission: "Online Brokerage: Keeping Apace of Cyberspace."

Before being appointed to the Commission, Ms. Unger served as Securities Counsel to the United States Senate Committee on

Banking, Housing and Urban Affairs where she advised the Chairman, Senator Alfonse M. D'Amato (R-NY).

Before coming to work on Capital Hill, Ms. Unger was an attorney with the Enforcement Division of the Securities and Exchange Commission in Washington, D.C.

Ms. Unger received a B.A. in Rhetoric from the University of California at Berkeley in 1983, and a J.D. from New York Law School.

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